

LUDINGTON MASS TRANSPORTATION AUTHORITY

REPORT ON FINANCIAL STATEMENTS
(with additional information)

SEPTEMBER 30, 2008 AND 2007

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Independent Auditor's Report

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the accompanying financial statements of the business-type activities of Ludington Mass Transportation Authority, the "Authority", as of and for the year ended September 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ludington Mass Transportation Authority, as of September 30, 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2008, on our consideration of Ludington Mass Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ludington Mass Transportation Authority's basic financial statements. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the basic financial statements of Ludington Mass Transportation Authority. The additional information, and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 24, 2008

Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2008

This section of the Authority's annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2008. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2008, by \$3,841,954. Of this amount, \$969,139 represents net assets which are not invested in capital assets.
- The Authority's total net assets increased by \$375,864. This increase is due to receiving an additional \$687,532 in capital grants compared to last years \$183,794.
- The Authority remained free of long-term debt during the period.
- Federal reimbursement of eligible expenses decreased to 16%.
- State reimbursement of eligible expenses decreased to 36.15% from 38.62%.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expense are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis of the Ludington Mass Transportation Authority

For the year ended September 30, 2008, assets exceeded liabilities by \$3,841,954. The Authority is a capital-intensive enterprise, and approximately 75% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2008

Figure A-1 *Condensed Statement of Net Assets*

| | <u>9/30/08</u> | <u>9/30/07</u> |
|---------------------------------------|----------------------------|----------------------------|
| Assets | | |
| Current | \$ 1,055,576 | \$ 1,083,657 |
| Non-Current | 2,872,815 | 2,490,355 |
| | <u>\$ 3,928,391</u> | <u>\$ 3,574,012</u> |
| Liabilities | | |
| Current | \$ 86,437 | \$ 107,922 |
| Net Assets | | |
| Invested in Capital Assets | 2,872,815 | 2,490,355 |
| Unrestricted | 969,139 | 975,735 |
| | <u>3,841,954</u> | <u>3,466,090</u> |
| Liabilities and Net Assets | <u>\$ 3,928,391</u> | <u>\$ 3,574,012</u> |

The Authority's net assets increased by \$375,864 in 2008. The following is a summary of Revenues, Expenses and Changes in Net Assets which show how the \$375,864 increase in net assets occurred.

Figure A-2 *Changes in Net Assets from Operating Results*

For the year ended September 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|--------------------------|---------------------------|
| Operating Revenue | \$ 253,195 | \$ 279,592 |
| Operating expenses | <u>1,591,554</u> | <u>1,527,482</u> |
| OPERATING (LOSS) | <u>(1,338,359)</u> | <u>(1,247,890)</u> |
| Taxes | 246,384 | 237,288 |
| Other Nonoperating revenue | <u>780,307</u> | <u>807,961</u> |
| Total Nonoperating revenue | <u>1,026,691</u> | <u>1,045,249</u> |
| Income (Loss) Before Capital Contributions | (311,668) | (202,641) |
| Capital Grants | <u>687,533</u> | <u>183,794</u> |
| CHANGE IN NET ASSETS | <u>\$ 375,864</u> | <u>\$ (18,847)</u> |

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2008**

The following table shows 2008 revenue compared to 2007:

| Revenues | 2008 Amount | 2008 Percent Of Total | 2007 Amount | 2007 Percent Of Total | Increase (Decrease) From 2007 |
|------------------------------|---------------------|--------------------------------|---------------------|--------------------------------|-------------------------------------|
| Operating Revenue | \$ 253,195 | 19.78 | \$ 279,592 | 21.10 | \$ (26,397) |
| Interest Income | 48,305 | 3.77 | 51,216 | 3.87 | (2,911) |
| Property Tax | 246,384 | 19.25 | 237,288 | 17.91 | 9,096 |
| Federal Assistance | 202,299 | 15.81 | 241,635 | 18.24 | (39,336) |
| State Assistance | 506,932 | 39.61 | 504,234 | 38.06 | 2,698 |
| Maintenance Service Revenues | 14,768 | 1.15 | 6,765 | .52 | 8,003 |
| Gain on Sale of Assets | 8,003 | .63 | 4,111 | .30 | 3,892 |
| Total Revenue | <u>\$ 1,279,886</u> | <u>100.00</u> | <u>\$ 1,324,841</u> | <u>100.00</u> | <u>\$ (44,955)</u> |
| Capital Grants | | | | | |
| Federal | \$ 556,026 | 80.87 | \$ 149,435 | 81.31 | \$ 406,591 |
| State | 131,506 | 19.13 | 34,359 | 18.69 | 97,147 |
| Total | <u>\$ 687,532</u> | <u>100.00</u> | <u>\$ 183,794</u> | <u>100.00</u> | <u>\$ 503,738</u> |

The federal reimbursement rate decreased to 16.0% for eligible expenditures and the State reimbursement rate decreased to 36.15%.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department – The department describes the major function areas of the Authority and includes:

Operations – Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance – Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration – All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation – Estimated pro-ratio of the cost of capital assets over the useful life of the asset.

Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2008

The following table shows the expenses for 2008 compare to 2007 by department:

| Department | 2008 Amount | 2008 Percent Of Total | 2007 Amount | 2007 Percent Of Total | Increase (Decrease) From 2007 |
|----------------|---------------------|--------------------------------|---------------------|--------------------------------|-------------------------------------|
| Operations | \$ 787,514 | 49.48 | \$ 745,741 | 48.82 | \$ 41,773 |
| Maintenance | 178,527 | 11.22 | 176,534 | 11.56 | 1,993 |
| Administration | 305,405 | 19.19 | 296,649 | 19.42 | 8,756 |
| Depreciation | 320,108 | 20.11 | 308,558 | 20.20 | 11,550 |
| Total Expenses | <u>\$ 1,591,554</u> | <u>100.00</u> | <u>\$ 1,527,482</u> | <u>100.00</u> | <u>\$ 64,072</u> |

- Operations costs increased due to increased vehicle hours and personnel and wage increases.
- Administration costs increased due to wage increases.

Operating Expense by Object – The object is the classification of expenses by type of item. The following table shows expenses for 2008 compared to 2007 by object:

| Object | 2008 Amount | 2008 Percent Of Total | 2007 Amount | 2007 Percent Of Total | Increase (Decrease) From 2007 |
|------------------------|---------------------|--------------------------------|---------------------|--------------------------------|-------------------------------------|
| Wages and Benefits | \$ 912,881 | 57.36 | \$ 861,506 | 56.40 | \$ 51,375 |
| Services | 57,041 | 3.58 | 72,492 | 4.75 | (15,451) |
| Supplies and Materials | 205,112 | 12.89 | 187,015 | 12.24 | 18,097 |
| Utilities | 39,272 | 2.47 | 36,118 | 2.36 | 3,154 |
| Casualty and Liability | 48,476 | 3.05 | 51,428 | 3.37 | (2,952) |
| Miscellaneous | 7,051 | .44 | 8,373 | .55 | (1,322) |
| Lease and Rentals | 1,613 | .10 | 1,992 | .13 | (379) |
| Depreciation | 320,108 | 20.11 | 308,558 | 20.20 | 11,550 |
| Total | <u>\$ 1,591,554</u> | <u>100.00</u> | <u>\$ 1,527,482</u> | <u>100.00</u> | <u>\$ 64,072</u> |

- Services decreased in 2008 due to not having a reverse commuter grant as in 2007.
- Supplies expenses increased due to higher fuel prices.

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2008**

Capital Assets

The Authority's investment in capital assets as of September 30, 2008, amounted to \$2,872,815 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2008 included the following:

- Ten buses \$669,496
- One Service Vehicle \$33,073

Factors Bearing on the Authority's Future

With the current economic condition in the country and especially the State of Michigan, LMTA management anticipates the following:

- Federal Operating assistance is anticipated to be 16% of eligible operating expenses in 2009.
- State operating assistance is anticipated to be 35.84% of eligible operating expenses in 2009. However, due the economic uncertainty in the State of Michigan we expect the operating assistance to be adjusted to 35.62% before the end of the fiscal year.
- As with other employers, the LMTA continues to face increased employee benefit costs. It is safe to anticipate another increase in 2009.
- The LMTA currently belongs to the Michigan Transit Pool and was one of the founding members. The result of belonging to an insurance pool over the last several years has saved the LMTA thousands of dollars in insurance premiums. Unfortunately all members of the pool share in excessive losses and these excessive losses are unpredictable. For several years the MTP self insured for \$1,000,000 and purchased excess insurance for \$4,000,000. Due to world events and 9/11 the reinsurers have raised rates to a point that \$4,000,000 in reinsurance was no longer affordable. To combat the large increase in reinsurance the MTP has decided to self insure for \$2,000,000 and reinsure for \$2,000,000. This decision has increased the cost of insurance to the LMTA. However, the LMTA believes it will save money over purchasing commercial insurance by continuing to purchase insurance through the MTP.

Contacting the Public Transit's Financial Management

This financial report is designed to provide the Ludington Mass Transportation Authority's citizens, taxpayers, and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ludington Mass Transportation Authority, 5545 W. Carr Street, Ludington, MI 49431.

LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

| | <u>2008</u> | <u>2007</u> |
|---|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 929,955 | \$ 977,528 |
| Receivables: | | |
| Accounts | 13,983 | 13,697 |
| Due from Other Governments | 69,676 | 64,057 |
| Prepaid expenses | 30,372 | 17,292 |
| Inventories | <u>11,590</u> | <u>11,083</u> |
| Total Current Assets | 1,055,576 | 1,083,657 |
| PROPERTY AND EQUIPMENT, less accumulated depreciation | <u>2,872,815</u> | <u>2,490,355</u> |
| TOTAL ASSETS | <u><u>\$ 3,928,391</u></u> | <u><u>\$ 3,574,012</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 24,027 | \$ 39,766 |
| Accrued liabilities: | | |
| Accrued vacation | 1,332 | 1,308 |
| Payroll withholdings | 2,166 | 1,834 |
| Salaries and wages | 17,437 | 14,031 |
| Due to Other Governments | 3,601 | 6,445 |
| Deferred Revenue | <u>37,874</u> | <u>44,538</u> |
| Total Current Liabilities | <u>86,437</u> | <u>107,922</u> |
| NET ASSETS: | | |
| Invested in Capital Assets | 2,872,815 | 2,490,355 |
| Unrestricted | <u>969,139</u> | <u>975,735</u> |
| Total Net Assets | <u>3,841,954</u> | <u>3,466,090</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 3,928,391</u></u> | <u><u>\$ 3,574,012</u></u> |

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|----------------------------|----------------------------|
| OPERATING REVENUES | \$ 253,195 | \$ 279,592 |
| OPERATING EXPENSES | <u>1,591,554</u> | <u>1,527,482</u> |
| Operating (Loss) | <u>(1,338,359)</u> | <u>(1,247,890)</u> |
| NON-OPERATING REVENUES: | <u>1,026,691</u> | <u>1,045,249</u> |
| NET INCOME (LOSS) | <u>(311,668)</u> | <u>(202,641)</u> |
| CAPITAL CONTRIBUTIONS | | |
| Federal Financial Assistance | 556,026 | 149,435 |
| State of Michigan | <u>131,506</u> | <u>34,359</u> |
| Total Capital Contributions | <u>687,532</u> | <u>183,794</u> |
| DECREASE IN NET ASSETS | 375,864 | (18,847) |
| TOTAL NET ASSETS, beginning of year | <u>3,466,090</u> | <u>3,484,937</u> |
| TOTAL NET ASSETS, end of year | <u><u>\$ 3,841,954</u></u> | <u><u>\$ 3,466,090</u></u> |

The accompanying notes are an integral part of this statement.

LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 252,909 | \$ 286,392 |
| Cash payments to suppliers for goods and services | (613,205) | (556,201) |
| Cash payments to employees for services | <u>(683,805)</u> | <u>(650,695)</u> |
| Net cash used in operating activities | <u>(1,044,101)</u> | <u>(920,504)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES: | | |
| Local tax levy received | 239,721 | 219,170 |
| Maintenance service receipts | 14,768 | 6,766 |
| Operating grants received | <u>700,768</u> | <u>731,080</u> |
| Net cash provided by non-capital financing | <u>955,257</u> | <u>957,016</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition of capital assets | (702,569) | (206,926) |
| Proceeds from sale of fixed assets | 8,003 | 4,111 |
| Capital grants received | <u>687,532</u> | <u>183,794</u> |
| Net cash provided (used) by capital and related financing activities | <u>(7,034)</u> | <u>(19,021)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | <u>48,305</u> | <u>51,216</u> |
| NET INCREASE (DECREASE) IN CASH | (47,573) | 68,707 |
| CASH, beginning of year | <u>977,528</u> | <u>908,821</u> |
| CASH, end of year | <u><u>\$ 929,955</u></u> | <u><u>\$ 977,528</u></u> |

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
RECONCILIATION OF OPERATING LOSS TO NET
CASH USED IN OPERATING ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|--|------------------------------|----------------------------|
| Operating income (loss) | <u>\$ (1,338,359)</u> | <u>\$ (1,247,890)</u> |
| Adjustments to reconcile operating loss to net cash provided | | |
| By operating activities: | | |
| Depreciation | 320,108 | 308,558 |
| Accounts receivable | (286) | 6,800 |
| Inventories | (507) | (282) |
| Prepaid expenses | (13,080) | 552 |
| Accounts payable | (15,739) | 9,041 |
| Accrued expenses | <u>3,762</u> | <u>2,717</u> |
| Total adjustments | <u>294,258</u> | <u>327,386</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u><u>\$ (1,011,101)</u></u> | <u><u>\$ (920,504)</u></u> |

The accompanying notes are an integral part of this statement.

LUDINGTON MASS TRANSPORTATION AUTHORITY NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ludington Mass Transportation Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Ludington Mass Transportation Authority is organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 196. The Transportation Authority has the capability to provide public transportation to the general public in the area of Ludington and Scottville, Michigan, and has the authority to provide this service throughout Mason County. Ludington Mass Transportation Authority does receive city millage for operations, and both City of Ludington and City of Scottville governing bodies appoint Ludington Mass Transportation Authority Board members. Ludington Mass Transportation Authority's financial statements are not included in either the City of Ludington's or the City of Scottville's audit reports. Only Ludington Mass Transportation Authority's operations are included in this report.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion for the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statement (i.e., the statement of net assets and the statement of revenue, expenses and change in net assets) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts – invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

- (1) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal is fully guaranteed by the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration.
- (3) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- (4) In United States government of Federal agency obligation repurchase agreements.
- (5) In bankers' acceptances of United States banks.
- (6) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Capital Assets and Depreciation

Capital assets are defined by the transportation authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets with an initial, individual cost of less than \$5,000 and/or an estimated useful life of less than one year and purchased with Federal and/or State grants are expensed and subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance". Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation expense included to be reimbursed with State Funds only include assets purchased with local funds where the useful life of the asset has been approved by the Bureau of Passenger Transportation. The estimated useful lives are as follows:

| | |
|-----------|------------|
| Buildings | 20 years |
| Equipment | 2-10 years |
| Buses | 4-10 years |

Inventory and Prepaid Items

Inventories of motor vehicle lubricants and parts are valued at the lower of cost or market on a first-in, first out basis. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Deferred Revenue

The deferred revenue represents taxes received that are not recognized until the following year.

Compensated Absences

The Authority allows the carryover of up to eighty hours of vacation into the next fiscal year for full-time employees who have qualified for the maximum allowable vacation. Carryover of more than eighty hours of vacation time into the next fiscal year is not permitted without the approval of the Board.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

Cost Allocation Plans

Ludington Mass Transportation Authority has two cost allocation plans where the methodology has been approved by the Bureau of Passenger Transportation (BPT). Currently, only the Maintenance Services cost allocation plan is needed and used. The cost allocation plan was adhered to in the preparation of the financial statements.

Capital Money

No capital money was used to pay for operating expenses and none are included in the total expenses to be reimbursed with State Formula Funds.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2: PROPERTY & EQUIPMENT

Major classes of property and equipment consist of the following:

| Business-type activities | Balance 09/30/07 | Increases | Decreases | Balance 09/30/08 |
|--|---------------------|-----------|-----------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 100,971 | \$ | \$ | \$ 100,971 |
| Capital assets, being depreciated | | | | |
| Buildings | 2,265,875 | | | 2,265,875 |
| Vehicles | 1,223,218 | 669,496 | 334,508 | 1,558,206 |
| Operations | 21,550 | | | 21,550 |
| Bus and garage equipment | 172,038 | | 10,729 | 161,309 |
| Furniture, fixtures & equipment | 141,226 | 33,073 | 17,784 | 156,515 |
| Total capital assets being depreciated | 3,823,907 | 702,569 | 363,021 | 4,163,455 |
| Less accumulated depreciation for: | | | | |
| Buildings | 340,676 | 113,558 | | 454,234 |
| Vehicles | 890,167 | 174,010 | 334,508 | 729,669 |
| Operations | 7,183 | 4,310 | | 11,493 |
| Bus and garage equipment | 111,582 | 16,919 | 10,729 | 117,772 |
| Furniture, fixtures & equipment | 84,915 | 11,311 | 17,784 | 78,442 |
| Total accumulated depreciation | 1,434,523 | 320,108 | 363,021 | 1,391,610 |
| Total capital assets, being depreciated, net | 2,389,384 | | | 2,771,845 |
| Business-type activities capital assets, net | \$ 2,490,355 | | | \$ 2,872,816 |

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

Capital assets were purchased with two sources of funds as follows:

| | Purchased with Authority Funds | Purchased with Capital Grants | Total |
|---------------------------------|--------------------------------------|----------------------------------|--------------|
| Land and Buildings | \$ 344,583 | \$ 2,022,263 | \$ 2,366,846 |
| Vehicles | 29,829 | 1,528,377 | 1,558,206 |
| Operations | 21,550 | | 21,550 |
| Bus and garage equipment | 26,339 | 134,970 | 161,309 |
| Furniture, fixtures & equipment | 88,836 | 67,679 | 156,515 |
| | 511,137 | 3,753,289 | 4,264,426 |
| Less accumulated depreciation | 137,320 | 1,254,290 | 1,391,610 |
| Net Property and Equipment | \$ 373,817 | \$ 2,498,999 | \$ 2,872,816 |

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: RECEIVABLES

Receivables as of year end for the Authority are as follows:

| | |
|--------------------|------------------|
| Account receivable | <u>\$ 13,983</u> |
|--------------------|------------------|

The allowance for doubtful accounts is not considered to be material for disclosure.

NOTE 4: PROPERTY TAXES

The Authority levies a voter-approved tax for the City of Ludington and City of Scottville. The voters granted the authority to levy up to 0.9254 mills through 2010 for the City of Ludington and up to 1.3200 through 2009 for the City of Scottville. For the year ended September 30, 2008, the Authority requested a millage rate of 0.9000 mills for the City of Ludington and 1.1889 for the City of Scottville. The taxes are levied and due July 1, and become delinquent after August 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period.

NOTE 5: DEPOSITS AND INVESTMENTS

At year end, the carrying amount of the Authority's deposits was \$929,955 and the bank balance was \$962,610 of which \$371,998 was covered by federal depository insurance and \$590,661 was uninsured and uncollateralized. The authority has no investments as of September 30, 2008. The authority has the following risk disclosures:

Interest Rate Risk – The authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The authority has no investment policy that would further limit its investment choices. As of September 30, 2008, the authority has no investments that meet the above criteria.

Concentration of Credit Risk – The authority places no limit on the amount the authority may invest in any one issuer.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 6: CONTINGENCIES

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2005, 2007 and 2008, either have not commenced or have not been completed.

NOTE 7: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

NOTE 8: CONCENTRATION OF CREDIT RISK

For the fiscal year ended September 30, 2008, the Authority was reimbursed by the State of Michigan for 38.6208% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage will be recalculated after total eligible expenses for all transits are determined based on audited figures.

NOTE 9: PENSION

The Authority has established a Simplified Employee Pension Program for all employees who are at least 21 years of age, received at least \$450 in compensation and have completed one year of service. Ludington Mass Transportation Authority contributes 5% of gross wages of each eligible participant each year. Total pension cost for the years ended September 30, 2008 and 2007 were \$29,489 and \$28,766 respectively. The covered payroll for the year ended September 30, 2008 was approximately \$619,666 and total payroll was \$687,904.

In addition, the Authority has a section 457 plan which allows employees to defer a portion of their wages into individual retirement annuities which are owned by each employee.

ADDITIONAL INFORMATION

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|------------------------------|------------------------------|------------------------------|
| Operating Revenues: | | |
| Demand response | \$ 150,079 | \$ 149,043 |
| Contracted services | <u>103,116</u> | <u>130,549</u> |
| TOTAL OPERATING REVENUES | <u><u>\$ 253,195</u></u> | <u><u>\$ 279,592</u></u> |

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2008 AND 2007

| | <u>Operations</u> | <u>Maintenance</u> | <u>General Administration</u> | <u>Total 2008</u> | <u>Total 2007</u> |
|---|---------------------|--------------------|-----------------------------------|-----------------------|-----------------------|
| Labor: | | | | | |
| Operating salaries and wages | \$ 356,583 | \$ | \$ | \$ 356,583 | \$ 339,959 |
| Other salaries and wages | 32,780 | 73,153 | 137,525 | 243,458 | 235,442 |
| Dispatchers salaries and wages | 87,526 | | | 87,526 | 78,011 |
| Fringe benefits | | | | | |
| Other fringe benefits | 111,033 | 34,327 | 50,465 | 195,825 | 179,328 |
| Pension | 20,378 | 2,273 | 6,838 | 29,489 | 28,766 |
| Services | | | | | |
| Audit expense | | | 6,525 | 6,525 | 6,200 |
| Other services | 6,881 | 14,200 | 29,435 | 50,516 | 41,792 |
| Materials and supplies consumed: | | | | | |
| Fuel and lubricants | 129,692 | 380 | 2,921 | 132,993 | 96,973 |
| Tires and tubes | 5,402 | | | 5,402 | 12,873 |
| Other materials and supplies | 6,036 | 52,356 | 8,325 | 66,717 | 77,169 |
| Utilities | | | 39,272 | 39,272 | 36,118 |
| Casualty and liability cost: | | | | | |
| Liability and property damage insurance | 30,140 | | | 30,140 | 51,428 |
| Other insurance | | | 18,336 | 18,336 | |
| Purchased Services | | | | | 24,500 |
| Miscellaneous expenses: | | | | | |
| Travel | 1,063 | 225 | 3,409 | 4,697 | 6,505 |
| Association dues and subscriptions | | | 2,354 | 2,354 | 1,868 |
| Leases and rentals | | 1,613 | | 1,613 | 1,992 |
| Depreciation | <u>303,653</u> | <u>6,710</u> | <u>9,745</u> | <u>320,108</u> | <u>308,558</u> |
| TOTAL EXPENSES | <u>\$ 1,091,167</u> | <u>\$ 185,237</u> | <u>\$ 315,150</u> | <u>\$1,591,554</u> | <u>\$ 1,527,482</u> |

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULES OF NON-OPERATING REVENUES
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | <u>Project Auth.</u> | <u>2008</u> | <u>2007</u> |
|---|----------------------|---------------------|---------------------|
| PROPERTY TAXES | | \$ 246,384 | \$ 237,288 |
| STATE SOURCES | | | |
| State of Michigan Operating Grants | | | |
| Local Bus Operating Assistance (Act 51) | | | |
| Prior year adjustment – 2003 | | | (5,745) |
| Prior year adjustment – 2004 | | 4,610 | 9,391 |
| Prior year adjustment – 2005 | | | 14,658 |
| Prior year adjustment – 2006 | | 14,630 | (2,983) |
| 2007 | | 21,729 | 451,413 |
| 2008 | | 465,963 | |
| Reverse Commute | | | 37,500 |
| | | <u>506,932</u> | <u>504,234</u> |
| FEDERAL SOURCES | | | |
| U.S. Department of Transportation | | | |
| Operating Grant – Section 5311 | | | |
| Contract 07-0246/Z2 | MI-18-X041 | 41 | 197,647 |
| Contract 02-0061-Z15/R1 | | (6,204) | (118) |
| Contract 02-0061-Z13/R1 | | | 1,398 |
| Contract 07-0246-Z4 | MI-18-X042 | 205,187 | |
| Contract 02-0061-Z10 | | | 2,136 |
| Rural Transit Assistance Program | MI-18-X028 | 3,275 | 3,071 |
| Reverse Commute | MI-37-X024 | | 37,500 |
| | | <u>202,299</u> | <u>241,634</u> |
| OTHER | | | |
| Interest Income | | 48,305 | 51,216 |
| Gain on sale of fixed assets | | 8,003 | 4,111 |
| Maintenance service | | 14,768 | 6,766 |
| | | <u>71,076</u> | <u>62,093</u> |
| TOTAL NON-OPERATING REVENUE | | <u>\$ 1,026,691</u> | <u>\$ 1,045,249</u> |

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULES OF CAPITAL GRANTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

| | <u>Project Auth.</u> | <u>2008</u> | <u>2007</u> |
|--|----------------------|-------------------|-------------------|
| State of Michigan capital grants: | | | |
| Contract 07-0246-Z3 | MI-85-X001 | \$ 86,399 | \$ |
| Contract 02-0061-Z17 | MI-04-0009 | 45,107 | 11,093 |
| Contract 02-0061-Z16 | MI-18-X040 | | 23,266 |
| | | <u>131,506</u> | <u>34,359</u> |
| Total State of Michigan capital grants | | | |
| Federal capital grants | | | |
| U.S. DOT capital grant | | | |
| Contract 07-0246-Z3 | MI-85-X001 | 375,597 | |
| Contract 02-0061-Z16 | MI-18-X040 | | 93,064 |
| Contract 02-0061-Z17 | MI-04-0009 | 180,429 | 56,371 |
| | | <u>556,026</u> | <u>149,435</u> |
| Total Federal capital grants | | | |
| TOTAL CAPITAL GRANTS | | <u>\$ 687,532</u> | <u>\$ 183,794</u> |

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2008

| | <u>RTAP</u> | <u>Operations</u> | <u>Total</u> |
|----------------------------------|-----------------|---------------------|---------------------|
| Labor | \$ | \$ 687,567 | \$ 687,567 |
| Fringe benefits | | 225,314 | 225,314 |
| Services | | 57,041 | 57,041 |
| Materials and supplies | | 205,112 | 205,112 |
| Utilities | | 39,272 | 39,272 |
| Casualty and liability insurance | | 48,476 | 48,476 |
| Purchased services | | | |
| Miscellaneous expense | 3,275 | 3,776 | 7,051 |
| Leases and rentals | | 1,613 | 1,613 |
| Depreciation | | 320,108 | 320,108 |
| | <u>\$ 3,275</u> | <u>\$ 1,588,279</u> | <u>\$ 1,591,554</u> |

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2008**

| | <u>Section 5311</u> | <u>Operating Assistance</u> |
|---|-------------------------|---------------------------------|
| Expenses: | | |
| Labor | \$ 687,567 | \$ 687,567 |
| Fringe benefits | 225,314 | 225,314 |
| Services | 57,041 | 57,041 |
| Materials and supplies | 205,112 | 205,112 |
| Utilities | 39,272 | 39,272 |
| Casualty and liability insurance | 48,476 | 48,476 |
| Miscellaneous expense | 3,776 | 3,776 |
| Leases and rentals | 1,613 | 1,613 |
| Depreciation | <u>320,108</u> | <u>320,108</u> |
| TOTAL EXPENSES | <u>\$ 1,588,279</u> | <u>\$ 1,588,279</u> |
| Less ineligible expenses: | | |
| Depreciation: | | |
| Grant assets | 286,603 | 286,603 |
| Audit fees | 6,525 | |
| Maintenance on County vehicles | 12,546 | 12,546 |
| Capital grant expenses not capitalized | | |
| Entertainment expenses | 94 | 94 |
| Dues | <u>93</u> | <u>93</u> |
| Total ineligible expenses | <u>305,861</u> | <u>299,336</u> |
| NET ELIGIBLE EXPENSES | <u>\$ 1,282,418</u> | <u>\$ 1,288,943</u> |
| Maximum Section 5311 reimbursement 16.00% | <u>\$ 205,187</u> | |
| Maximum State operating Assistance 36.1508% of eligible expenses | | <u>\$ 465,963</u> |

**LUDINGTON MASS TRANSPORTATION AUTHORITY
MILEAGE DATA
YEAR ENDED SEPTEMBER 30, 2008**

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2008. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

| | <u>Public Transportation Mileage</u> |
|-----------------------|--|
| DEMAND RESPONSE | |
| First quarter | 93,169 |
| Second quarter | 92,170 |
| Third quarter | 79,536 |
| Fourth quarter | <u>75,352</u> |
| TOTAL DEMAND RESPONSE | <u><u>340,227</u></u> |

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF VEHICLE HOURS AND PASSENGERS**

| September 30, 2008 | Passengers | | | | | Total Passengers |
|---------------------------|------------------|----------------------|---------------------|-------------------------------|---|---------------------|
| | Vehicle Hours | Regular Passenger | Senior Passenger | Handi- Capped Passenger | Senior Handi- Capped Passenger | |
| First Quarter | 7,213 | 19,666 | 5,583 | 12,892 | 1,783 | 39,924 |
| Second Quarter | 7,353 | 19,383 | 6,424 | 12,910 | 1,054 | 39,771 |
| Third Quarter | 6,803 | 16,517 | 6,570 | 11,984 | 1,223 | 36,294 |
| Fourth Quarter | 6,577 | 14,791 | 6,327 | 11,570 | 1,345 | 34,033 |
| | <u>27,946</u> | <u>70,357</u> | <u>24,904</u> | <u>49,356</u> | <u>5,405</u> | <u>150,022</u> |

| September 30, 2007 | Passengers | | | | | Total Passengers |
|---------------------------|------------------|----------------------|---------------------|-------------------------------|---|---------------------|
| | Vehicle Hours | Regular Passenger | Senior Passenger | Handi- Capped Passenger | Senior Handi- Capped Passenger | |
| First Quarter | 6,651 | 20,324 | 5,528 | 13,283 | 1,260 | 40,395 |
| Second Quarter | 6,849 | 22,133 | 5,890 | 13,168 | 1,291 | 42,482 |
| Third Quarter | 6,274 | 15,634 | 5,676 | 12,631 | 1,225 | 35,166 |
| Fourth Quarter | 5,801 | 13,882 | 5,501 | 12,364 | 1,115 | 32,862 |
| | <u>25,575</u> | <u>71,973</u> | <u>22,595</u> | <u>51,446</u> | <u>4,891</u> | <u>150,905</u> |



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

November 24, 2008

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the financial statements of the business-type activities of Ludington Mass Transportation Authority as of and for the year ended September 30, 2008, which collectively comprise Ludington Mass Transportation Authority basic financial statements and have issued our report thereon dated November 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ludington Mass Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ludington Mass Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ludington Mass Transportation Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Ludington Mass Transportation Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Ludington Mass Transportation Authority's financial statements that is more than inconsequential will not be prevented or detected by Ludington Mass Transportation Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Ludington Mass Transportation Authority's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ludington Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Ludington Mass Transportation Authority in a separate letter dated November 24, 2008.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

November 24, 2008

To the Board of Directors
Ludington Mass Transportation Authority
St. Ignace, Michigan

Compliance

We have audited the compliance of Ludington Mass Transportation Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Ludington Mass Transportation Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Ludington Mass Transportation Authority's management. Our responsibility is to express an opinion on Ludington Mass Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ludington Mass Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ludington Mass Transportation Authority's compliance with those requirements.

In our opinion, Ludington Mass Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of Ludington Mass Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Ludington Mass Transportation Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ludington Mass Transportation Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF FINANCIAL ASSISTANCE
FEDERAL AND STATE
YEAR ENDED SEPTEMBER 30, 2008

| Federal grantor/Pass through grantor Program title | Federal CFDA Number | State Grantor Number | Program or Award Amount | Beginning Receivable/ (Deferral) | Receipts | Disbursements | Adjustments | Ending Receivable/ (Deferral) |
|---|---------------------------|----------------------------|-------------------------------|--|-------------------|-------------------|-------------------|-------------------------------------|
| <u>U.S. Department of Transportation</u> | | | | | | | | |
| <u>Passed through MDOT:</u> | | | | | | | | |
| Operating assistance Section 5311 | 20.509 | 07-0246/Z4 | \$ 205,187 | \$ | \$ 190,505 | \$ 205,187 | \$ | \$ 14,682 |
| Operating assistance Section 5311 | 20.509 | 07-0246/Z2 | 197,647 | 14,628 | 14,669 | 41 | | |
| Operating assistance Section 5311 | 20.509 | 02-0061/Z15/R1 | 203,404 | 6,204 | | | (6,204) | |
| Capital Section 53111 | 20.509 | 07-0246/Z3 | 375,597 | | 345,597 | 375,597 | | 30,000 |
| R-TAP Training | 20.509 | N/A | 3,071 | 224 | 3,499 | 3,275 | | |
| Reverse Commute | 20.516 | 02-0246/Z1 | 37,500 | 8,676 | 8,676 | | | |
| Capital Grant Section 5309 | 20.500 | 02-0061/Z16 | 93,064 | | | | | |
| Capital Grant Section 5309 | 20.500 | 02-0061/Z17 | 316,800 | 12,000 | 192,429 | 180,429 | | |
| TOTAL FEDERAL ASSISTANCE | | | <u>\$ 594,591</u> | <u>\$ 41,732</u> | <u>\$ 755,375</u> | <u>\$ 764,529</u> | <u>\$ (6,204)</u> | <u>\$ 44,682</u> |
| <u>Michigan Department of Transportation</u> | | | | | | | | |
| Operating assistance Act 51 | | 2008 | \$ 465,963 | \$ | \$ 469,564 | \$ 465,963 | \$ | \$ (3,601) |
| Operating assistance Act 51 | | 2007 | 451,413 | (6,183) | 5,182 | 21,729 | | 10,364 |
| Operating assistance Act 51 | | 2006 | | 13,649 | 13,649 | 14,630 | | 14,630 |
| Operating assistance Act 51 | | 2005 | | (262) | 262 | | | |
| Operating assistance Act 51 | | 2004 | | | 4,610 | 4,610 | | |
| Reverse Commute | | 07-0246/Z1 | 37,500 | 8,676 | 8,676 | | | |
| Capital grants | | 07-0246/Z3 | 86,399 | | 86,399 | 86,399 | | |
| Capital grants | | 02-0061/Z17 | 56,200 | | 45,107 | 45,107 | | |
| TOTAL STATE OF MICHIGAN ASSISTANCE | | | <u>\$ 523,272</u> | <u>\$ 15,880</u> | <u>\$ 633,449</u> | <u>\$ 638,438</u> | <u>\$</u> | <u>\$ 21,393</u> |

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Ludington Mass Transportation Authority and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the basic financial statements.
2. Transportation Operating and Capital Assistance Grant, CFDA #20.509 was audited as a major program, representing 75.9% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Federal expenditures are reported as revenue as follows in the basic financial statements:

| | |
|------------------------------------|------------------------------|
| Non – Operating Revenue | \$ 202,299 |
| Capital Contributions | 556,026 |
| Adjustment for prior year revenues | <u>6,204</u> |
| Total Federal Awards | <u><u>\$ 764,529</u></u> |

5. Ludington Mass Transportation Authority was not determined to be a low-risk auditee.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2008**

Section I – Summary of Auditors’ Results

Financial statements

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

| | |
|---------------------------------|---|
| <u>CFDA Number(s)</u> 20.509 | <u>Name of Federal Program</u> Transportation Operating and Capital Assistance Grant |
|---------------------------------|---|

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2008**

Financial Statement Audit

None



November 24, 2008

Board of Directors
Ludington Mass Transportation Authority
Ludington, MI

In planning and performing our audit of the financial statements of Ludington Mass Transportation Authority for the fiscal year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Ludington Mass Transportation Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

During our audit, we noted the following control deficiencies:

Personal Use of Automobile

The contract for the Executive Director allows personal use of an Authority vehicle. The personal use needs to be tracked and calculated. The compensation amount then needs to be added to his W-2. This calculation is not currently being completed and the Authority is under reporting the compensation of the Executive Director.

Check Signing

It is the policy of the Authority to have two signatures on all checks issued over \$250. During a test of the disbursement process we noted a check issued over \$250 that only had one signature. The employees must observe internal control policies enacted by the Authority while performing their everyday tasks.

This report is intended solely for the information and use of the Board of Directors, management, the Michigan Department of Transportation and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants